



California sues Fannie Mae, Freddie Mac over green loans

Posted on: Thu, 15 Jul 2010 10:33:31 EDT

Symbols: [FNM](#), [FRE](#)

Jul 15, 2010 (The Sacramento Bee - McClatchy-Tribune Information Services via COMTEX) --

California Attorney General Jerry Brown sued federal [mortgage lending](#) giants Fannie Mae and Freddie Mac for blocking green financing programs around the state, saying the agencies' actions put more than \$100 million in federal stimulus funding at risk.

In a filing in U.S. District Court in San Francisco on Wednesday, Brown said the federal housing agencies have effectively shut down the programs, which provide homeowners with financing for solar panel installations and other energy retrofits.

The move has forced clean [energy companies](#) to lay off workers and is hampering the state's economic recovery, the suit said.

"As the nation struggles through the worst recession in modern times, California is taking action in federal court to stop the regulatory strangulation of the state's grass-roots program that is spreading across the country," Brown, the Democratic nominee for governor, said in a news release.

The Federal Housing [Finance](#) Agency, which oversees Freddie Mac and Fannie Mae, said it has no plans to change course despite the lawsuit.

"In keeping with our safety and soundness obligations, the Federal Housing Finance Agency will defend vigorously its actions that aim to protect taxpayers, lenders, Fannie Mae and Freddie Mac," said Edward DeMarco, FHFA's acting director.

Pioneered in the last few years by Berkeley and Palm Desert, the Property Assessed Clean Energy, or PACE, programs allow homeowners to [borrow money](#) from local governments for energy improvements, and pay it back through their property taxes.

According to the New York Times, the PACE approach has now been authorized by 22 states using \$150 million in federal stimulus [funds](#).

Problems arose in May when Fannie Mae and Freddie Mac issued warning letters saying the arrangements may violate their rules because -- like other property tax assessments -- they have a payback priority position over [mortgage loans](#).

The two agencies expressed concern that counties would be paid before they would whenever a homeowner with a PACE loan defaults on a Fannie Mae or Freddie Mac loan.

The agencies' concerns prompted Placer and Sonoma counties to temporarily halt their [programs](#), with hundreds of pending applications left in limbo.

On Tuesday, Sonoma County's Board of Supervisors voted to go ahead with a PACE program anyway.

Sacramento and Yolo Counties were set to kick off their PACE plans later this year but have also been stalled by Freddie Mac and Fannie Mae.

"That had a chilling effect on the programs since we don't have robust or innovative credit markets right now," said Martha Amram, a senior fellow at the Milken Institute and CEO of Mountain View-based Ennovationz Inc., which specializes in residential energy efficiency programs.

Brown unveiled details of the lawsuit in San Diego, which had planned to launch its PACE program this summer.

Brown noted that San Diego was forced to suspend its program indefinitely, leaving more than 100 people trained in energy retrofits out of work.

Brown's lawsuit said that the federal agencies mischaracterize the green financing programs as loan programs.

Instead, they should be considered tax assessments such as those used by local governments to build schools, roads and other community projects, the suit said.

These assessments should be given priority over liens held by institutions such as Fannie Mae and Freddie Mac, the suit said.

The suit calls for a federal judge to issue an injunction or a temporary restraining order barring Fannie Mae and Freddie Mac from taking adverse actions against any homeowner with a PACE loan.

Martin Chavez, executive director for the 600-member ICLEI-Local Governments for Sustainability, applauded the state's lawsuit, saying the federal agencies essentially are intruding into local governments' authority to issue tax assessments.

Call The Bee's Rick Daysog, (916) 321-1207.

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